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## University of Washington; CP; Lease; Public Coll/Univ - Unlimited Student Fees

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## Credit Profile

US\$220.465 mil gen rev bnds ser 2024A due 07/01/2040		
<i>Long Term Rating</i>	AA+/Stable	New
US\$69.045 mil gen rev rfdg bnds ser 2024B due 07/01/2040		
<i>Long Term Rating</i>	AA+/Stable	New
University of Washington CP nts		
<i>Short Term Rating</i>	A-1+	Affirmed
University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

## Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to the University of Washington's (UW or the university) \$220.5 million series 2024A and \$69.0 million series 2024B general revenue bonds (GRBs).
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the UW's outstanding GRBs.
- Additionally, S&P Global Ratings affirmed its 'A-1+' short-term rating on UW's commercial paper (CP) notes.
- The outlook, where applicable, is stable.

## Security

Securing the GRBs is a pledge of general revenue, which comprises all nonappropriated revenue not restricted by law or contract--excluding appropriations, grant direct costs, restricted gifts, some fees, Metro Tract revenue, and certain auxiliary revenue. General revenue totaled \$5.2 billion in fiscal 2023, including net patient services revenue (\$2.1 billion), student tuition and fees (\$1.0 billion), and auxiliary services (\$507.9 million). We consider the security pledge to be equivalent to an unlimited student fee pledge. Total debt in fiscal 2023 was approximately \$3.41 billion, including \$789.3 million in leases; total pro forma debt after this issuance is approximately \$3.46 billion.

## Credit overview

We assessed the UW's enterprise risk profile as extremely strong, characterized by its impressive market position and demand as well as significant research activity, and its financial risk profile as very strong, with a conservative debt profile and solid financial resources compared with the operating budget. We believe these credit factors, combined, lead to an anchor of 'aa+' and a final rating of 'AA+'.

The 'A-1+' short-term rating on the CP (up to \$250 million in authorized amount) reflects our view of the university's general credit strengths including its ability to manage and experience in managing its CP tender needs from its sufficient liquid assets of high credit quality that are part of its investment portfolio. As of Sept. 30, 2023, UW had \$1.8 billion in discounted assets with next-day liquidity, which we consider ample.

The 'AA+' unlimited student fee ratings reflect our view of the university's:

- Position as one of the nation's top research universities, with \$1.9 billion in federal and nonfederal grant and contract awards in fiscal 2023;
- Solid demand, with 60,494 full-time-equivalent students for fall 2023, the second-highest enrollment on record;
- Manageable 3.7% pro forma maximum annual debt service (MADS) burden; and
- Impressive fundraising efforts and a healthy endowment, with an estimated market value of \$4.9 billion as of June 30, 2023.

Partly offsetting credit factors, in our opinion, are the university's:

- Historical variability in operating margins, and
- Health care risk with inflationary pressures.

The University of Washington is the largest of the state's four-year public higher education institutions. It was founded in 1861 in Seattle and has two additional smaller campuses, in Tacoma and Bothell. The university provides baccalaureate, master's, doctoral, and professional degree programs, with over 600 degree options. UW is a major research institution, ranked No. 1 among public institutions for externally funded sponsored project expenditures based on National Science Foundation data, and UW Medical Center is ranked as the top hospital in the state by U.S. News and World Report.

### **Environmental, social, and governance**

We analyzed the university's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. The region has exposure to environmental risk with rising sea levels and earthquakes, but we feel the university's location and building standards mitigate some of this risk. We view UW's social and governance factors as neutral in our credit rating analysis.

## **Outlook**

The stable outlook reflects our expectation that the university will maintain or improve financial resource ratios and sustain healthy demand metrics. We expect margins will be negative in fiscal 2024 but begin to improve in fiscal 2025.

### **Downside scenario**

Credit factors that could lead to a negative rating action include sustained operating deficits, issuance of substantial new debt that results in a high debt burden, or large declines in financial resource ratios relative to those of peer public flagship institutions.

### **Upside scenario**

A positive rating action could be considered over time if UW's operating performance is positive on a sustained basis and balance sheet metrics increase to levels more in line with those of 'AAA' rated systems.

## Credit Opinion

### Enterprise Risk Profile--Extremely Strong

#### Market position and demand

UW is the flagship university in the state of Washington, and its credit profile benefits from its healthy and stable demand and enrollment. Management expects demand and enrollment to remain stable in the near future. UW has effectively capped enrollment at its main campus, although there is the possibility of limited expansion at the Bothell and Tacoma campuses. While the university has several graduate programs, it is still primarily undergraduate, with approximately 67% of the student body consisting of undergraduate students. Although the university draws students from across the nation, it is still largely regional, with approximately 65% of students coming from the state, which is consistent with its mission to educate Washingtonians.

Combining metrics for the three UW campuses, first-year applications increased by 19.3% in fall 2023 to a record high of 70,365 as compared with the previous high of 58,999 in fall 2022. Due to the growth in applications, the acceptance rate fell to 48% in fall 2023 from 62% in fall 2012. The matriculation rate was 26% in fall 2023. Student quality has improved and is strong, in our view, with the average fall 2023 SAT score of 1340. The retention rate is solid, at 93%, and the six-year graduation rate is stable at approximately 82%.

UW Medicine is a leading health care provider throughout Washington. Key services include cardiology, trauma, oncology, transplants, and a broad array of adult and pediatric medical and surgical specialty and subspecialty services. UW Medicine includes the University of Washington School of Medicine, Harborview Medical Center, University of Washington Medical Center, Valley Medical Center, University of Washington Physicians, UW Medicine Primary Care, and Airlift Northwest. Additionally, it maintains strategic collaborations with Fred Hutchinson Cancer Center, Peace-Health, Seattle Children's, Skagit Regional Health, Bloodworks Northwest, Hall Health Center, MultiCare Health System, NW Kidney Centers, and VA Puget Sound/Boise/American Lake.

#### Management and governance

The university is governed by an 11-member board of regents and managed by President Ana Mari Cauce, who was named to the position in October 2015 and has been a member of the UW faculty since 1986. Tricia Serio began serving as the provost and executive vice president for academic affairs on Aug. 1, 2023; as provost, she is the university's chief academic and budget officer. The regents review and approve all large capital projects. In our view, the culture of planning regarding debt issuance allows for a certain degree of predictability.

### Financial Risk Profile--Very Strong

#### Financial performance

We estimate operating performance by removing unrealized gains/losses on investments and adjusting for pension and other postemployment benefits (OPEB) contribution net of expense, which resulted in an operating deficit of \$214.6 million, or a net operating income of negative 2.54%, in fiscal 2023 due to a decline in COVID-related revenues

and an increase in expenses driven by inflation and labor costs. Operating results have been variable, and preceding the deficit in fiscal 2023, UW reported surpluses in fiscal years 2022 and 2021 primarily due to growth in net patient revenue, grants and contracts revenue, and auxiliary enterprises. Net operating income in fiscal 2022 was very strong at 4.7%, or \$356.5 million, and in fiscal 2021 was also very strong at 4.1%, or a surplus of \$277.7 million. Net operating income in fiscal 2020 was negative 2.6%, or a deficit of \$173.6 million; we understand fiscal 2020 results were significantly affected by COVID-19, with the cancellation of elective procedures at UW Medicine as well as operating expense growth at the university as a result of the pandemic. Results for fiscal years 2019 and 2018 were just over break even at 0.4% and 0.3%, respectively. We understand fiscal 2024 results will likely remain challenged by inflation and high labor costs.

In fiscal 2023, total adjusted revenue included 31.1% from patient services, 22.6% from grants and contracts, 16.2% from tuition and student fees, 6.3% from auxiliary operations, and only 6.5% from state operating appropriations. Approximately 80% of grant and contract awards came from federal sources, with the School of Medicine being the biggest driver of research. The university is consistently among the nation's top university recipients for research grants and contracts each year. The compound annual growth rate in grant and contract awards has been 4.3% for fiscal years 2019 through 2023. We expect grant and research funding for the university will remain strong in the medium term.

State support has been solid, growing consistently since 2015 to a total of \$532.0 million in fiscal 2023, up from \$485 million in operating support in fiscal 2022. Fiscal 2021 state appropriations totaled \$481 million in funding for operations. While the legislature has limited the growth in the in-state undergraduate tuition rate, it has permitted 3% in recent years, including academic year 2023-2024 and 2024-2025. In the 2023 legislative session, the state passed a biennial operating budget with increases for the university.

Consolidated endowment funds at June 30, 2023, totaled \$4.9 billion, a new record high, up from \$4.7 billion in fiscal 2021. Management implemented a phased spending rate reduction to 4.5% from 5.0% during fiscal years 2020 to 2022. In fiscal 2022, the total distribution was 4.5%, or \$182 million, based on the 20-quarter average market value, and will remain at this level. In fiscal 2023, the draw totaled \$202 million.

### **Financial resources**

Financial resources as measured by cash and investments was adequate at the rating level for the university. Cash and investments including the foundation totaled \$8.5 billion in fiscal 2023, up from \$8.4 billion in fiscal 2022. Cash and investments relative to operations at 100.6% was good, although below the rating category median of 115.3%. Cash and investments relative to pro forma debt at 245.8% was somewhat weaker, below the rating category median of 278.4%.

Fundraising has been strong, in our opinion. Fiscal 2023 gifts and private grants were a significant \$625 million. While not currently in a campaign, the most recent campaign, "Be Boundless," reached its \$5 billion goal two years ahead of schedule as of October 2018. The campaign concluded on June 30, 2020, with almost \$6.3 billion in commitments, which we understand was a record for public higher education institutions.

## Debt and contingent liabilities

As of June 30, 2023, the university had \$3.41 billion of total debt outstanding and pro forma debt of \$3.46 billion after series 2024A and 2024B bonds are issued. In our opinion, the debt profile is conservative. The debt service schedule is front-loaded, with pro forma MADS of \$315.0 million in fiscal 2025. The MADS burden is manageable, in our opinion, at 3.7%. With the current planned issuance almost balanced by debt retired, the total debt outstanding is expected to remain stable through fiscal 2028. The series 2024A bonds are being issued to provide \$108.7 million in new money and \$143.0 million to take out all outstanding CP; the series 2024B are being issued to tender certain bonds.

The university provides retirement benefits through four contributory pension plans: the Washington State Public Employees' Retirement System (PERS) plan, the Washington State Teachers' Retirement System (TRS) plan, the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) plan, and the University of Washington Retirement Plan. PERS, TRS, and LEOFF are cost sharing multiple-employer defined benefit pension plans administered by the Washington State Department of Retirement Systems (DRS). The university's pension and OPEB expense relative to adjusted operating expense is about 2.4%, which we view as manageable and expect will remain manageable. For more information on the DRS-administered plans, see the debt and liabilities section in the Washington State report published Jan. 11, 2024, on RatingsDirect.

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges and universities
	2024	2023	2022	2021	2020	2022
<b>Enrollment and demand</b>						
Full-time-equivalent enrollment	60,494	60,421	60,359	60,829	59,659	41,783
Undergraduates as a % of total enrollment	66.9	66.5	66.5	67.2	67.6	80.2
First-year acceptance rate (%)	47.7	52.0	57.1	59.8	55.0	73.2
First-year matriculation rate (%)	26.4	29.4	27.7	28.8	29.7	27.0
First-year retention rate (%)	92.6	91.5	90.7	91.4	92.5	86.8
Six-year graduation rate (%)	82.4	82.5	82.2	80.8	81.3	71.0
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	8,246,657	7,972,503	6,988,724	6,557,109	2,148,374
Adjusted operating expense (\$000s)	N.A.	8,461,270	7,615,975	6,711,164	6,730,687	2,030,534
Net adjusted operating margin (%)	N.A.	(2.5)	4.7	4.1	(2.6)	3.2
Estimated operating gain/loss before depreciation (\$000s)	N.A.	308,681	819,363	655,398	214,760	MNR
Tuition discount (%)	N.A.	13.5	14.4	18.3	15.8	28.2
Student dependence (%)	N.A.	22.6	23.5	22.3	25.6	37.0
State appropriations to revenue (%)	N.A.	6.5	6.1	6.9	6.3	17.3
Health care operations dependence (%)	N.A.	31.1	30.6	31.6	31.9	MNR
Research dependence (%)	N.A.	22.6	20.8	22.4	22.7	13.4
<b>Debt</b>						
Foundation debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

## University of Washington--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges and universities
	2024	2023	2022	2021	2020	2022
Total debt with foundation (\$000s)	N.A.	3,405,926	3,321,978	3,130,248	2,413,457	1,142,825
Proposed debt (\$000s)	N.A.	389,010	N.A.	462,565	325,165	MNR
Total pro forma debt (\$000s)	N.A.	3,462,906	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.2	2.4	2.9	2.8	MNR
Current MADS burden (%)	N.A.	3.5	3.5	2.8	2.9	3.4
Pro forma MADS burden (%)	N.A.	3.7	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.4	13.2	14.4	13.1	13.5
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	4,940,000	4,678,000	4,712,000	3,560,000	1,102,535
Related foundation market value (\$000s)	N.A.	1,609,634	1,168,422	288,195	278,547	945,352
Cash and investments including foundation (\$000s)	N.A.	8,512,296	8,397,515	8,266,743	6,659,223	2,837,567
Cash and investments including foundation to operations (%)	N.A.	100.6	110.3	123.2	98.9	115.3
Cash and investments including foundation to debt (%)	N.A.	249.9	252.8	264.1	275.9	278.4
Cash and investments including foundation to pro forma debt (%)	N.A.	245.8	N.A.	N.A.	N.A.	MNR

Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin =  $100 \times (\text{net adjusted operating income} / \text{adjusted operating expense})$ . Student dependence =  $100 \times (\text{gross tuition revenue} + \text{auxiliary revenue}) / \text{adjusted operating revenue}$ . Current MADS burden =  $100 \times (\text{maximum annual debt service expense} / \text{adjusted operating expenses})$ . Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation / depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

### Ratings Detail (As Of January 26, 2024)

University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev <i>Long Term Rating</i>	AA+/Stable	Affirmed

**Ratings Detail (As Of January 26, 2024) (cont.)**

University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington gen rev		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Washington PCU_USF		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Washington Biomedical Research Fac 3, Washington</b>		
University of Washington, Washington		
Washington Biomedical Properties 3.1 (University of Washington) lse		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Washington Economic Development Finance Authority, Washington</b>		
University of Washington, Washington		
Washington Econ Dev Fin Auth (University of Washington) PCU_USF		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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